Since 1887, growing with a changing America.

HART SCHAFFNER & MARX®

ANNUAL REPORT FOR 1974

Front Cover: Hart Schaffner & Marx creates, manufactures and markets a broad spectrum of apparel paced to Americans' varied, ever-changing needs and tastes in business, sports and leisure fashions.

Back Cover: Hart Schaffner & Marx now operates 252 quality apparel stores in major market areas from coast to coast. Some of the 11 stores opened during 1974 are shown.

Hart Schaffner & Marx corporate office
36 South Franklin Street,
Chicago, Ill. 60606

New York City sales offices
1290 Avenue of the Americas,
New York, N.Y. 10019

TRANSFER AGENTS

The First National Bank of Chicago, Chicago, Ill. 60690

Bankers Trust Company, New York, N.Y. 10015

REGISTRARS

Continental Illinois National Bank and Trust Company of Chicago, Chicago, Ill. 60690

Chemical Bank, New York, N.Y. 10015

Hart Schaffner & Marx common shares are traded (under the "HSM" symbol) on the New York and Midwest Stock Exchanges.

Highlights

	Years ended November 30				
	1974	1973	1972	1971	1970
Net sales	**$494,937,000**	$469,158,000	$423,114,000	$372,022,000	$363,406,000
Net earnings	**11,755,000**	16,125,000	14,190,000	10,350,000	11,370,000
Average shares outstanding —common shares and common share equivalents	**8,637,000**	8,767,000	8,805,000	8,749,000	8,738,000
Earnings per share	**1.36**	1.84	1.61	1.18	1.30
Cash dividends per common share	**.88**	.86	.80	.80	.80
Shareholders' equity	**168,142,000**	165,171,000	158,246,000	149,645,000	146,160,000
Equity per share	**19.58**	18.98	17.98	17.12	16.74
Working capital	**$181,742,000**	$158,660,000	$155,605,000	$147,528,000	$154,299,000
Additions to properties—net	**6,942,000**	13,006,000	7,763,000	9,249,000	10,368,000
Depreciation and amortization	**7,710,000**	6,909,000	6,377,000	5,905,000	5,335,000
Employees	**20,500**	21,000	20,000	19,000	18,500
Shareholders	**8,200**	7,300	7,200	7,200	6,700
Retail stores in U.S.A.	**252**	267	258	256	248

HART
SCHAFFNER
& MARX®

ANNUAL REPORT FOR 1974

BOARD OF DIRECTORS

John D. Gray, *Chairman, Hart Schaffner & Marx*

Jerome S. Gore, *President, Hart Schaffner & Marx*

A. Robert Abboud, *Deputy Chairman of the Board of First Chicago Corporation and of The First National Bank of Chicago*

Lee S. Bickmore, *Chairman, Executive Committee, Nabisco, Inc.*

James S. Bingay, *President and Chief Executive Officer, The Mutual Life Insurance Company of New York*

Charles L. Brown, *Executive Vice President and Chief Financial Officer, American Telephone and Telegraph Company*

James F. Chambers, Jr., *Chairman of the Board and Chief Executive Officer, The Times Herald Printing Company (Dallas)*

Paul A. Conley, *Financial Consultant; retired Chairman of the Board, Blyth Eastman Dillon & Co. Incorporated*

Arthur Gunzberg, *Chairman, M. Wile & Company, Inc.*

Walter B. D. Hickey, Sr., *President, Hickey-Freeman Co., Inc.*

John R. Meinert, *Executive Vice President, Hart Schaffner & Marx*

Burton B. Ruby, *President, Jaymar-Ruby, Inc.*

Elmer Schlesinger, *Investor*

Clay E. Steele, *Retired (formerly Senior Vice President, Hart Schaffner & Marx)*

James K. Wilson, Jr., *Executive Vice President, Hart Schaffner & Marx*

Robert J. Witt, *Executive Vice President, Hart Schaffner & Marx*

HONORARY DIRECTORS

Walter M. Heymann, *Retired (formerly Vice Chairman, The First National Bank of Chicago)*

Jack M. Ruby, *Chairman, Jaymar-Ruby, Inc.*

Harry L. Wells, *Vice President Emeritus, Northwestern University*

Administrative Officers

John R. Meinert, *Executive Vice President*
Richard L. Barker, *Vice President and Controller*
William B. Snow, *Vice President and Treasurer*
Charles L. Stewart, *Vice President, Secretary and General Counsel*
H. John Yopp, *Vice President*

To our Shareholders:

Sales increased 5.5 percent in 1974, reaching a new high of $494,937,000 compared to $469,158,000 in 1973. Net earnings were $11,755,000 or $1.36 per share in 1974. This is a decrease of 27 percent from the record high earnings of $16,125,000 or $1.84 per share in 1973.

The economic downturn, which began in 1974, developed into a recession in the latter half of the year. It is having serious effects on our industry, and sales and earnings of your Company continue to be adversely affected. Hopefully, economic conditions will improve toward the end of this year.

Shareholders received an announcement from the Company following the January 15, 1975 meeting of the board of directors, explaining the reduction in the quarterly dividend from 22 cents to 15 cents per share (the first reduction in 25 years). It stated that, after long deliberation and careful consideration, the directors decided it would be in the best interests of the Company and its shareholders to reduce the dividend to a realistic level in view of present economic conditions. The decision was unanimous. This action, along with determined efforts throughout the Company to reduce expenses and to improve margins wherever possible, places the Company in the strongest possible financial position to take full advantage of its opportunities as the economy recovers.

COMMENTS ON RESULTS FOR THE YEAR

The 1974 earnings decrease resulted from a combination of factors, in addition to the higher operating expenses attributable to the inflationary forces in our economy. These other major factors include an accounting change in the method of inventory valuation which lowered earnings 10 cents per share, higher interest which reduced earnings 12 cents per share and additional depreciation which decreased earnings 5 cents per share.

The Company and certain subsidiaries which previously used the first-in, first-out, or FIFO method have changed to the last-in, first-out, or LIFO method of inventory valuation. Under LIFO, the 1974 cost of goods sold has been based on the Company's most recent, higher costs, thus reducing earnings in its financial reports and the cash paid for income taxes. This change to LIFO increased cost of goods sold for 1974 by $1,740,000, and after the reduction in taxes, net income for 1974 was reduced $860,000 or 10 cents per share. The change was made in the fourth quarter of 1974, and the first three quarters have been restated, as shown in the notes to the financial statements.

Interest expense was a burden in 1974 as it rose to $7 million, or $2.1 million higher than in 1973. This expense increase, which reduced earnings after taxes by 12 cents per share, was caused by the rise in interest rates and by larger borrowings.

Depreciation increased $800,000 in 1974 largely from depreciating the fixed asset expenditures which were made in the prior year. This included the opening of new stores by the Retail Stores Group and the new 240,000 sq. ft. plant opened in Buffalo, New York by M. Wile which has been highly successful in producing Johnny Carson apparel and other clothing.

Expenses increased in 1974 both in the operating expenses of the Retail Stores Group and in the Manufacturing Group overhead. Much of this increase is attributable to higher rates for wages and utilities. The tailored clothing industry experienced a strike from June 1 to June 12, 1974 which affected three important manufacturing divisions of the Company. The strike ended when a new industry-wide contract was negotiated between the Clothing Manufacturers Association and the Amalgamated Clothing Workers of America. The terms provided for increasing hourly wages 30 cents in June 1974, 15 cents in October 1974, 27.5 cents in June 1975 and 27.5 cents in June 1976, plus certain fringe benefits over the three year period of the contract.

MANUFACTURING GROUP

The Manufacturing Group attained a new high in volume, exceeding $240 million in 1974. One-fourth of its volume represents apparel produced for the Company's Retail Stores Group and therefore approximately $60 million of this amount is not included in the consolidated sales of $494,937,000. Sales to independent accounts by the Manufacturing Group increased approximately 10 percent in 1974.

Hart Schaffner & Marx Clothes, the largest manufacturing division, produces Hart Schaffner & Marx clothing, Jack Nicklaus suits, sports coats and slacks by Hart Schaffner & Marx and the Christian Dior collection tailored by Hart Schaffner & Marx. It markets high quality tailored clothing at similar price ranges under the brand names Society Brand Ltd., Graham & Gunn, Ltd. and Sterling & Hunt. This division also markets a medium-price line of clothing, Austin Reed of Regent Street. This British-influenced clothing is designed in collaboration with the Austin Reed Group Ltd. of England. Fashionaire, major supplier of career apparel for the airlines, automobile rental agencies, banks, hotels and other service-oriented companies, is also part of this division.

Hickey-Freeman is the largest United States manufacturer of superb quality men's tailored clothing. Hickey-Freeman and Walter-Morton suits, sport coats, slacks, outercoats and formal wear are sold in the finest men's specialty and department stores in the country.

M. Wile is one of the most dynamic divisions in the Company. It manufactures suits and sport coats under various labels and produces the Johnny Carson clothing. Johnny Carson Apparel, Inc., in which your Company owns the majority interest, was started in 1970 and last year sold approximately 500,000 suits and sport coats to 2,400 retailers throughout the United States.

M. Wile recently announced a new Nino Cerruti Rue Royale line of clothing starting with the fall 1975 season. Nino Cerruti is a member of the Paris Couture Group and an internationally recognized designer; he is also a businessman who owns a textile mill and a clothing manufacturing company in Italy and a prominent men's specialty store in Paris, France. The Rue Royale collection of men's clothing designed by Cerruti and tailored by M. Wile is directed to the younger fashion-conscious American who prefers his clothing more moderately priced.

Nino Cerruti will also continue to design a couture collection of clothing for Society Brand, Ltd., which is directed to the affluent, successful professional or businessman who prefers the finest quality tailoring and advanced styling.

Jaymar-Ruby, the largest manufacturer of men's quality tailored slacks in the United States, is continuing to grow. This division has developed a line of sport coats and sportswear, including leisure suits, which has been received enthusiastically by retailers. The division has expanded its facilities to take advantage of the growing market for slacks and other sportswear, which it manufactures under the Jaymar trademark including the well-known Sansabelt slacks, and under the PG brand which is popularly priced advanced fashion apparel for young men.

Your Company is also participating in the increasing market for sportswear through three other divisions. These are Gleneagles, California Sportwear and Blue Jeans. In addition to raincoats and all-weather coats, Gleneagles manufactures an extensive line of casual outerwear under the Gleneagles/Great Western label and markets Rue Royale sports and leisure wear designed by Nino Cerruti. For spring 1975, it is

introducing an exclusive line of Jack Nicklaus golf and boating jackets as well as leisure suits. For fall 1975, Gleneagles will introduce a line of Johnny Carson western-style sportswear. The initial reaction to this new merchandise has been most favorable. California Sportwear manufactures leather jackets under its own brand name and other labels. Blue Jeans Corporation produces jeans and coordinated outfits for chain stores and major retailers.

The Company represents Jack Nicklaus in the licensing of all men's apparel in the United States and has entered into a joint venture with his company, Golden Bear Enterprises, for licensing throughout the world. The international licensing of the Company's expertise and brand names is now a source of growing revenues for your Company. Sterling & Hunt, Graham & Gunn, Ltd., and Jack Nicklaus, which are marketed in the United States by the Hart Schaffner & Marx Clothes division, are also manufactured and sold in Japan as part of an extensive licensing program with Marubeni Corporation, a large Japanese trading company.

James K. Wilson, Jr., an executive vice president and director of the Company, is president of the Manufacturing Group.

RETAIL STORES GROUP

The Retail Stores Group had sales of over $300 million in 1974. Sales increased to a record high level in 1974 even though fewer stores were operated than in 1973, and figures are not restated for the divestiture of stores.

The Company now owns and operates 252 apparel stores in the United States compared to 267 stores a year ago. In addition, 14 stores are operated in Mexico by Robert's, a leading manufacturer-retailer of men's quality clothing which became affiliated with Hart Schaffner & Marx in December 1971.

In 1974, the Retail Stores Group opened 11 new stores, closed four and sold 22 stores. The Company completed the remaining divestiture as of April 30, 1974 under its consent decree with the U. S. Department of Justice. Hughes & Hatcher, Inc., an excellent customer for your Company's products for many years, purchased 20 of the 22 stores with a combined annual volume of $16 million. Proceeds from selling the stores were substantially equal to the net book value of the assets sold. Earnings in 1974 from these proceeds were approximately equal to previous earnings from the stores.

Retail sales in 20 women's specialty stores, plus sales of women's apparel which is carried in approximately one-half of the men's stores, are continuing to grow. Sales of women's apparel, including sales of departments leased to others, now exceed $75 million annually.

A list of the retail stores operated by your Company is shown on pages 14 and 15 of this report. It is to be noted that each retail subsidiary operates its stores under its own name. All of the stores enjoy outstanding reputations in their local communities and are mainly the leading men's or women's apparel store in their particular metropolitan area. Each of the retail subsidiaries operates as an individual profit center with its own local management guided by the overall policies determined by the Retail Stores Group headquartered in Chicago.

Customers appreciate the comprehensive assortments of fashion merchandise and the dedication to the high standards of quality, value and service they receive in the Company's stores. The Retail Stores Group should continue to grow and prosper. New stores will be opened as profitable investment opportunities arise.

Robert J. Witt, an executive vice president and director of the Company, is president of the Retail Stores Group.

FINANCIAL COMMENTS

The Company entered into a $35 million seven-year credit agreement with 16 banks on September 30, 1974. This long-term agreement, under which $35 million has been borrowed, replaces a previous agreement with 10 of the 16 banks for $15 million, which was paid, and the $20 million additional proceeds were used to reduce short-term bank loans. The revolving credit arrangement gives the Company the option of making prepayments and subsequently borrowing up to the $35 million.

Prior to September 30, 1977, the Company may convert all or any part of the $35 million into term loans payable in equal amounts during 1978-1981. The agreement assures the availability of the long-term funds required by the Company, which also uses lines of credit for its short-term needs. By January 2, 1975, the Company had paid all of its $21 million short-term bank loans which were outstanding on November 30, 1974.

Receivables increased $7.4 million and inventories increased $10.6 million from November 30, 1973 to November 30, 1974. These increases, of approximately 8% each, reflect higher prices. Your Company is in a strong financial condition with a ratio of current assets to current liabilities of more than three to one and a ratio of equity to long-term debt of more than two to one.

John R. Meinert, chief financial officer and formerly senior vice president, was elected executive vice president of finance and administration at the January 15, 1975 meeting of the board of directors. Mr. Meinert is also a director of the Company.

OUTLOOK FOR FISCAL 1975

In December and January, the first two months of the Company's 1975 fiscal year, sales of the Retail Stores Group were approximately even with the prior year period after excluding the sales of divested stores. Advance orders for 1975 in the Manufacturing Group are below 1974. Earnings are being adversely affected by reduced unit volume and additional costs from inflation, which are not fully recoverable under the competitive pricing situation. Our industry is keeping price increases to an absolute minimum in its attempts to maintain the volume which is vital for profitable operations. Your Company's unique combination of apparel manufacturing and retailing activities provides it with operating advantages that are especially helpful during this recessionary period.

The primary responsibility of your management, especially at this time, is to maximize profits while improving the financial and marketing position of the Company. To accomplish this, every effort is being made to control costs, limit expenditures and reduce expenses wherever possible.

With the economy in a severe recession and prices continuing to rise, the consumer is concerned more than ever with making certain that he purchases products of recognized quality. In this respect, your Company has an unusual advantage with its enviable reputation for quality apparel of outstanding value, for service and for integrity, which are direct results of the dedicated efforts of our loyal associates and employees. Our officers and directors join us in thanking them for their splendid cooperation.

Very truly yours,

John D. Gray
John D. Gray
Chairman

Jerome S. Gore

February 17, 1975

Jerome S. Gore
President

Hart Schaffner & Marx
Consolidated Statement of Earnings

(thousands of dollars)

	Years ended November 30				
	1974	1973	1972	1971	1970
Net sales	**$494,937**	$469,158	$423,114	$372,022	$363,406
Other income	**5,296**	3,756	3,512	3,176	3,386
	500,233	472,914	426,626	375,198	366,792
Cost of goods sold	**310,150**	286,470	259,093	229,054	225,482
Selling, administrative and occupancy expenses	**159,958**	151,149	136,323	122,710	115,352
Interest	**6,979**	4,873	3,996	3,729	4,188
	477,087	442,492	399,412	355,493	345,022
Earnings before taxes	**23,146**	30,422	27,214	19,705	21,770
Taxes on income:					
Federal:					
Current	**9,875**	12,652	11,132	7,762	8,433
Deferred	**(95)**	(191)	30	312	711
State	**1,611**	1,836	1,862	1,281	1,256
	11,391	14,297	13,024	9,355	10,400
Net earnings for the year	**$ 11,755**	$ 16,125	$ 14,190	$ 10,350	$ 11,370
Earnings per common share and common share equivalent	**$1.36**	$1.84	$1.61	$1.18	$1.30

(See accompanying notes to consolidated financial statements)

Consolidated Statement of Shareholders' Equity

(thousands of dollars)

	Par value of Preferred shares	Par value of Common shares	Capital surplus	Retained earnings	Treasury shares
Balance at November 30, 1972	$ 82	$ 21,691	$ 23,542	$ 113,540	$ 609
Net earnings for the year				16,125	
Cash dividends paid:					
Preferred shares, $2.00 per share				(164)	
Common shares, $.86 per share				(7,414)	
Stock option exercised (100 shares)			2		
Acquisition and disposition (net) of 99,097 treasury shares					1,624
Balance at November 30, 1973	82	21,691	23,544	122,087	2,233
Net earnings for the year				11,755	
Cash dividends paid:					
Preferred shares, $2.00 per share				(164)	
Common shares, $.88 per share				(7,466)	
Acquisition and disposition (net) of 113,370 treasury shares					1,154
Balance at November 30, 1974	$82	$21,691	$23,544	$126,212	$3,387

(See accompanying notes to consolidated financial statements)

Consolidated Balance Sheet

(thousands of dollars)

ASSETS	November 30 1974	1973
CURRENT ASSETS		
Cash and short term investments	$ 8,159	$ 3,265
Accounts receivable, less allowance of $3,442,000 and $2,970,000 for doubtful accounts	95,912	88,470
Inventories	152,179	141,555
Prepaid expenses	2,874	2,974
Accumulated income tax prepayments	2,280	2,185
Total current assets	261,404	238,449
OTHER ASSETS	4,807	4,835
PROPERTIES	56,938	57,706
	$323,149	$300,990

LIABILITIES AND SHAREHOLDERS' EQUITY

	1974	1973
CURRENT LIABILITIES		
Notes payable to banks	$ 21,000	$ 14,800
Current maturities of long term debt	739	806
Accounts payable and accrued expenses	56,807	60,261
Federal and state income taxes	1,116	3,922
Total current liabilities	79,662	79,789
LONG TERM DEBT, less current maturities		
4⅞% note payable $600,000 annually to 1983	4,800	5,400
8½% sinking fund debentures with annual retirements of $1,750,000 commencing in 1978	35,000	35,000
Notes payable to banks under credit agreement	35,000	15,000
Other debt, extending to 1985	545	630
	75,345	56,030
SHAREHOLDERS' EQUITY		
Preferred shares, $1 par value; authorized 2,500,000; issued and outstanding, Series A, 82,230 in 1974 and 1973	82	82
Common shares, $2.50 par value; authorized 25,000,000; issued 8,676,395 in 1974 and 1973	21,691	21,691
Capital surplus	23,544	23,544
Retained earnings	126,212	122,087
	171,529	167,404
Common shares in treasury, at cost, 236,950 in 1974 and 123,580 in 1973	(3,387)	(2,233)
	168,142	165,171
	$323,149	$300,990

(See accompanying notes to consolidated financial statements)

Consolidated Statement of Changes in Financial Position

(thousands of dollars)

	Years ended November 30	
	1974	1973
Working capital was provided by:		
Net earnings for the year	$11,755	$16,125
Depreciation and amortization	7,710	6,909
Working capital provided from operations	19,465	23,034
Consolidation of previously unconsolidated company		2,528
Borrowings under bank credit agreement	35,000	1,700
	54,465	27,262
Working capital was used for:		
Investment in and advances to foreign companies	174	1,003
Reduction of long term debt	15,685	807
Payment of dividends	7,630	7,578
Property additions—net	6,942	13,006
Purchase of treasury shares	1,154	1,624
Other	(202)	189
	31,383	24,207
Increase in working capital	$23,082	$ 3,055
Changes in components of working capital:		
Cash and short term investments	$ 4,894	$(2,802)
Accounts receivable	7,442	11,750
Inventories	10,624	18,537
Prepaid expenses	(100)	312
Accumulated income tax prepayments	95	191
Notes payable to banks	(6,200)	(14,800)
Current maturities of long term debt	67	150
Accounts payable and accrued expenses	3,454	(11,715)
Federal and state income taxes	2,806	1,432
Increase in working capital	$23,082	$ 3,055

(See accompanying notes to consolidated financial statements)

Notes to Consolidated Financial Statements

STATEMENT OF ACCOUNTING POLICIES—The consolidated financial statements include the accounts of the Company and all subsidiaries.

Earnings per common share and common share equivalent are based on the weighted average number of common shares and common share equivalents outstanding. Convertible preferred shares have been included as share equivalents but stock options were not dilutive.

Inventories are stated at the lower of cost or market. Cost is determined principally by the first-in, first-out method, except for the Company and two subsidiaries which adopted the last-in, first-out method in 1974 for certain manufacturing inventories.

Properties are stated at cost. Accelerated depreciation methods are used for a significant portion of the properties and the straight line method is used for the remainder. Investment tax credits are recorded as income in the year earned and were not material.

CHANGE IN ACCOUNTING—Effective with the year ended November 30, 1974, the Company and two subsidiaries adopted the last-in, first-out (LIFO) method of inventory valuation for certain manufacturing inventories which had been valued on the first-in, first-out method. Management believes that the LIFO method, which charges current earnings with current costs, more clearly reflects results of these operations. The effect of this change was to reduce inventories at November 30, 1974, and to increase cost of goods sold for the year then ended by $1,740,000. Net earnings in 1974 were reduced $860,000 ($.10 per share). When LIFO was adopted in the fourth quarter, the first three quarters were restated for the effect of this change. The effect on 1974 earnings is reflected in the following quarterly comparison:

Quarters (not separately audited) ended	1974 Net earnings: After change to LIFO — Thousands of dollars	Per share	Before change to LIFO — Thousands of dollars	Per share
Feb. 28	$ 4,075	$ .47	$ 4,170	$ .48
May 31	2,943	.34	3,038	.35
Aug. 31	2,319	.27	2,654	.31
Nov. 30	2,418	.28	2,753	.32
	$11,755	$1.36	$12,615	$1.46

PROPERTIES—Properties comprise the following:

	November 30 1974	1973
	(thousands of dollars)	
Land	$ 1,278	$ 1,278
Buildings and building equipment	12,048	11,566
Furniture, fixtures and equipment	62,361	59,693
Leasehold improvements	46,295	47,694
	121,982	120,231
Accumulated depreciation and amortization	(65,044)	(62,525)
	$ 56,938	$ 57,706

CONSENT DECREE—A consent decree entered on June 1, 1970 by the United States District Court requires consent of the Department of Justice before the Company acquires the assets of or an interest in any men's clothing store prior to June 1, 1975 and, for an additional five years, requires such consent or an approval of the Court. The last divestiture requirements of the decree were satisfied as of April 30, 1974 with no material effect on the 1974 results of operations.

LEASES—At November 30, 1974, the Company and its subsidiaries were committed under noncancelable leases, covering primarily retail properties, which require total minimum annual rentals and rentals applicable to financing leases as defined by the Securities and Exchange Commission as follows (in thousands):

Years	Noncapitalized financing leases	All leases
1975	$1,743	$11,654
1976	1,787	11,093
1977	1,721	10,654
1978	1,719	10,051
1979	1,725	9,403
1980-84	8,744	41,065
1985-89	8,684	27,132
1990-94	6,681	10,692
Thereafter	3,441	3,572

Over 90 percent of all leases provide for the payment by the lessors of all or most of the applicable real estate taxes, maintenance and insurance costs, which are substantial in proportion to the minimum rentals. Minimum rental income from noncancelable subleases offset against the above total rentals is $521,000 in 1975 and progressively less in subsequent years.

Rental expense, including rentals under short-term leases, comprise the following:

	Years ended November 30 1974	1973
	(thousands of dollars)	
Noncapitalized financing leases:		
Minimum rentals	**$ 2,229**	$ 2,204
Contingent rentals	**523**	456
Sublease (income)	**(547)**	(457)
Other leases:		
Minimum rentals	**11,483**	10,462
Contingent rentals	**2,820**	3,403
Sublease (income)	**(233)**	(211)
Total rental expense	**$16,275**	$15,857

Almost one-half of the leases contain renewal options ranging from 5 to 25 years; several leased facilities may be purchased at various dates at an aggregate cost of $5,206,000. Contingent rental payments are generally based on the sales volume of the rental unit.

The present value of the noncapitalized financing lease commitments was $15,600,000 at November 30, 1974 and $16,100,000 at November 30, 1973, net of the related sublease income of $1,400,000 and $1,500,000, respectively. The weighted average of interest rates used to compute present values was 6.56 and 6.52 percent in 1974 and 1973, respectively. The range of interest rates was 3.5 percent to 8.5 percent in both 1974 and 1973.

Had the rental payments been capitalized, the related assets amortized on a straight line basis and interest accrued on the basis of the outstanding lease commitment, the impact on net earnings in 1974 and in 1973 would have been approximately one percent.

BORROWING ARRANGEMENTS—During 1974, the Company entered into a bank credit agreement which provides for maximum borrowings of $35,000,000 to September 30, 1977. At any time on or before that date, any portion of the $35,000,000 may be converted into term loans payable in 16 equal quarterly installments commencing January 31, 1978. Interest is substantially at the prime commercial rate.

Under the most restrictive provisions of the Company's several borrowing agreements, senior funded debt is limited to approximately one-half of shareholders' equity; however, no limitation exists on subordinated funded debt. The Company is required to maintain consolidated working capital of $135,000,000 less any unused commitments under the bank credit agreement. Consolidated retained earnings of $25,370,000 at November 30, 1974 are not restricted as to the payment of cash dividends.

In connection with the foregoing bank credit agreement and short-term loans of $21,000,000, the Company has informally agreed to maintain average funds on deposits with the lenders which would have aggregated approximately $8,400,000 at November 30, 1974. Approximately one-half of this amount is normally covered by "float."

PENSION PLANS—The Company and its subsidiaries have pension plans covering substantially all employees other than those covered by union-sponsored plans. The Company's principal plan requires contributions by the employees and one other pension plan permits voluntary employee contributions. Except for several deferred profit sharing plans of subsidiaries, all employer's contributions are based on actuarial requirements. Pension expense charged against earnings includes current service costs and, as to plans not fully funded, amortization of prior service costs over ten to thirty years. The policy is to fund current and prior service pension costs as accrued; the amounts funded at November 30, 1974 exceeded the actuarially computed total of vested benefits.

Total pension costs for the years ended November 30, 1974 and 1973 were $2,367,000 and $2,147,000, respectively, which excludes contributions by the Company and its subsidiaries to union-sponsored plans. The Company does not expect any material change in consolidated pension costs as a result of the Pension Reform Act of 1974.

PREFERRED SHARES—The Series A preferred shares are voting shares, are each convertible into 1.8 common shares, are cumulative with an annual $2 dividend rate and are callable at the liquidation price of $67.50 per share (an aggregate of $5,551,000 at November 30, 1974). At November 30, 1974, there were 148,014 common shares reserved for conversion of the preferred shares.

STOCK OPTION PLANS—Under the Company's stock option plans, options are outstanding for officers and key employees to purchase shares of common stock at prices equal to the fair market value at date of grant. Options are exercisable to the extent of 25% each year (cumulative) from the second through the fifth year, and expire five years after date of grant. Under existing plans, no options may be granted after 1981.

A summary of the plans for the year ended November 30, 1974 is as follows:

	Number of shares under option	Range of option prices per share
Under option, at beginning of period	348,583	$15.50-$38.67
Granted	84,375	7.25- 13.25
Expired or terminated	(93,025)	10.07- 38.67
Under option, at end of period	339,933	7.25-33.12 (average of $21.58)
Options exercisable at end of period	121,918	
Available for grant:		
Beginning of period	23,982	
End of period	28,727	

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and Board of Directors
of Hart Schaffner & Marx:

We have examined the consolidated balance sheet of Hart Schaffner & Marx and its subsidiaries as of November 30, 1974 and 1973, and the related consolidated statements of earnings, shareholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

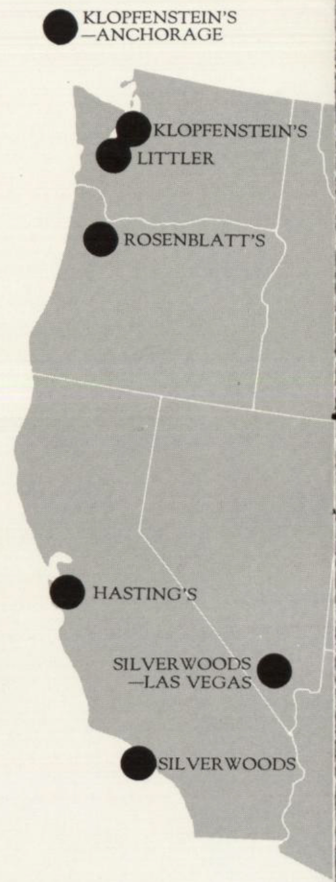
The method of valuing certain inventories was changed in 1974 from the first-in, first-out method to the last-in, first-out method as described in the notes to the consolidated financial statements.

In our opinion, the consolidated financial statements examined by us present fairly the financial position of Hart Schaffner & Marx and its subsidiaries at November 30, 1974 and 1973, the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the period except for the change, with which we concur, referred to in the preceding paragraph.

Price Waterhouse & Co.

Chicago, Illinois
January 15, 1975

Hart Schaffner & Marx Retail Stores Group



Robert J. Witt, *President*
Charles A. DeChants, *Vice President*
Don A. Miller, *Vice President*
Henry C. (Chick) Schwartz, *Vice President*
Jerome Dorf, *Vice President*
Gene Coccodrilli, *Vice President*
William A. Hughes, *Vice President*
Frank Brenner, *Vice President*

MEN'S MARKET MERCHANDISING CORPORATION
Donald G. Carney, *Vice President, Hart Schaffner & Marx and President, Men's Market Merchandising Corp.*
Matthew F. Shannon, *Senior Vice President*
Allan Baumel, *Vice President*

WOMEN'S MARKET MERCHANDISING CORPORATION
Betty Green, *Vice President*

252 RETAIL STORES AND THEIR EXECUTIVE OFFICERS

BASKIN (14), Chicago-Urbana, Ill.-Earl Graham and William J. Brennan

BASKIN-OLSON & VEERHUSEN (2), Madison, Wisc.-Earl Graham and William J. Brennan

RAY BEERS, Topeka, Kans.-Philip C. Gibson and Ray Beers, Jr.

BLACKBURN'S (2), Amarillo, Tex.-Calvin McAdams

CAPPER & CAPPER, LTD. (6), Chicago, Ill. and Detroit, Mich.-Robert A. Ratty

FANNIN'S (3), Montgomery, Ala.-Thomas H. Nelson

FIELD BROS. (5), New York, N.Y. and New Jersey-Bernard Lefenfeld and Larry Levy

ARTHUR FRANK (3), Salt Lake City, Utah-Simon Frank and Lawrence K. Goldsmith

FRANK BROS. (2), San Antonio, Tex.-Stanley Frank, Sr. and George W. Clarke

HANNY'S (8), Phoenix, Ariz.-William O. Manzer

HASTING'S (14), San Francisco-Sacramento, Calif.-Enzo Belli

JACK HENRY (4), Kansas City, Mo.-Ernest A. Dick

HEYWARD-MAHON (2), Greenville, S.C.-Bernard M. Lipscomb and Glenn E. Turk

J. O. JONES (2), Charlotte, N.C.-William W. Watts

KLEINHANS (5), Buffalo, N.Y.-Stan Smolen

KLOPFENSTEIN'S (7), Seattle-Tacoma, Wash. and Anchorage, Alaska-Hugh C. Klopfenstein

KUCHARO'S (2), Des Moines, Iowa-Nate Bernstein

LANG'S (3), Akron, Ohio-Frank M. Mark

LEOPOLD PRICE & ROLLE (6), Houston, Tex.-Joyce Lehman and Harvey Brown

MORRIS LEVY (2), Savannah, Ga.-Edward J. Boes, Jr.

LEVY/WOLF (5), Jacksonville, Fla.-David L. Kirkhofer

LIEMANDT'S (5), Minneapolis, Minn.-John A. Liemandt and Thad Larson

LITTLER, Seattle, Wash.-A. A. Littler and Laurence Fry

THE MAN STORE (2), Asheville, N.C.-Cliff H. Stevens

McLEOD WATSON & LANIER (2), Raleigh, N.C.-G. Louis Schanze and James T. Coleman

MERRITT SCHAEFER & BROWN (2), Austin, Tex.-S. H. Ashford and Ronald Kercheville

NATIONAL CLOTHING COMPANY (4), Rochester, N.Y.-Donald W. Dickey

PATTERSON-FLETCHER (3), Ft. Wayne, Ind.-C. Dwight Shirey and Louis H. Freymuth

PORTER'S-STEVENS (4), New Orleans, La.-Joseph S. Fishman and Raymond S. Fishman

ROOTS (2), Summit, N.J.-Perry Franklin Root

ROSENBLATT'S (4), Portland, Ore.-Hugh C. Klopfenstein and Bruce Bailey

SCHREIBER'S, Scranton, Pa.-Harold Barnett and Harold J. Granville

SHULMAN'S (3), Norfolk, Va.-Leroy Shulman, Lewis Shulman and James D. Curnutt

SILVERWOODS (21), Los Angeles, Calif. and Las Vegas, Nev.-Stephen C. Bilheimer and Robert B. Cockayne

STEVENS (2), Jackson, Miss.-Earl H. Freeman

STUCKEY'S (3), Rockford, Ill.-Raymond H. Schmitz and Peter C. Bilheimer

F. R. TRIPLER & CO., New York, N.Y.-Andrew J. Kiszka

VAN STRAATEN'S (2), Durham, N.C.-Harry J. van Straaten and William D. Barker

C. N. VICARY CO. (2), Canton, Ohio-Francis J. Sweeney

WALKERS (5), Columbus, Ohio-Paul F. Cockrell

WALKERS (3), Dayton, Ohio-Glen L. Waltrip

WALLACHS (24), New York, N.Y., Connecticut, Massachusetts, New Jersey and Rhode Island-Melvin Weber

WALLACHS-DICK RICHMOND (4), Miami, Fla.-William Handelman and Richard D. Swetonic

WASHER BROS. (2), Ft. Worth, Tex.-Donald G. Noel

WAYMIRES (2), Colorado Springs, Colo.-Jack Waymire and Lonnie Wagner

WEATHERWAX, Sioux City, Iowa-Richard L. Foster

WICKS & GREENMAN (2), Utica, N.Y.-James G. Capps and Arthur R. Scoones

JAS. K. WILSON (7), Dallas, Tex.-Alex J. Cochrane

WOLF BROS. (7), Tampa, Fla.-Fred L. Wolf

WOLFF'S (5), St. Louis, Mo.-Barney B. Sentner

ZACHRY (8), Atlanta, Ga.-John H. Brown and Charles E. Haupt

WOMEN'S SPECIALTY STORES

J. P. ALLEN (5), Atlanta, Georgia-Richard G. Tilghman

DEJONG'S (2), Evansville, Indiana-Merritt deJong, Hubert deJong and John D. Wells

CHAS. A. STEVENS (13), Chicago, Illinois-John W. Sheldon and Frank A. Zellet

Hart Schaffner & Marx Manufacturing Group

James K. Wilson, Jr., *President*
Keith Munroe, *Vice President*
John B. Greeley, *Vice President*
J. Austen Wood, *Vice President*

HART SCHAFFNER & MARX CLOTHES

36 South Franklin St., Chicago, Ill. 60606
8 Plants: Chicago (3) and Rock Island (2), Ill.;
Rochester, Ind.; and Cape Girardeau and Chaffee, Mo.

HART SCHAFFNER & MARX
Suits, sport coats, slacks and outercoats

JACK NICKLAUS
Suits, sport coats and slacks

CHRISTIAN DIOR
Suits, sport coats, slacks and outercoats

SOCIETY BRAND, LTD.
Suits, sport coats, slacks and outercoats

GRAHAM & GUNN, LTD.
Suits, sport coats slacks and outercoats

STERLING & HUNT
Suits, sport coats, slacks and outercoats

FASHIONAIRE
Men's and women's career apparel

William H. Mier, *President*
Thomas J. Flavin, *Group Vice President*
E. O. (Bert) Hand, *Group Vice President*
Frederick H. Schmeling, *Group Vice President*
Hugh H. Gallarneau, *Vice President*
Alfred Katz, *Vice President*
Michael Kent, *Vice President*
Mark J. Lies, *Vice President and Controller*
Lawrence F. Nein, *Vice President*
William W. Rowlette, *Vice President*
Gary Shafer, *Vice President*
Donald D. Shorr, *Vice President*
Howard Zenner, *Executive Vice President of Society Brand, Ltd.*
Herbert C. Wallace, Jr., *Senior Vice President of Fashionaire*
Richard Fager, *Vice President of Graham & Gunn, Ltd.*

AUSTIN REED OF REGENT STREET

36 South Franklin St.,
Chicago, Ill. 60606

AUSTIN REED OF REGENT STREET
Suits, sport coats, slacks, weatherwear and sportswear

Barry A. Reed, *Chairman and President*
Terry I. Kalish, *Vice President*

M. WILE & COMPANY, INC.

77 Goodell St., Buffalo, N.Y. 14240
3 Plants: Buffalo (2) and Dunkirk, N.Y.

DON RICHARDS
Suits

COUNTRY CASUALS
Sport coats

RUE ROYALE
Suits and sport coats by Nino Cerruti

Arthur Gunzberg, *Chairman*
Lawrence Gunzberg, *President*
Anthony Caine, *Vice President*
Joe Diskin, *Vice President*
Harry Feldstein, *Vice President*
Guy Gunzberg, *Vice President*
Norbert Huber, *Vice President and Secretary*
Theodore Levy, *Vice President*
Arthur Matross, *Vice President*
Frank Norton, *Vice President*
George Odvarka, *Vice President*
Frederick Pepperday, *Vice President*
Edward Robbins, *Vice President*
Joseph Starzec, *Vice President*

JOHNNY CARSON APPAREL, INC.

77 Goodell St.,
Buffalo, N.Y. 14240

JOHNNY CARSON
Suits, sport coats, weatherwear, leisurewear and furnishings

Arthur Gunzberg, *Chairman*
Johnny Carson, *President*
Kenneth A. Hoffman, *Vice President*
Gary Thorpe, *Vice President*

HICKEY-FREEMAN CO., INC.

1155 Clinton Ave. North, Rochester, N.Y. 14621
3 Plants: Rochester (2) and Buffalo, N.Y.

HICKEY-FREEMAN
Suits, sport coats, slacks, outercoats and formalwear

WALTER-MORTON
Suits, sport coats, slacks, outercoats and formalwear

GILBERT & LODGE
Suits, sport coats, slacks, outercoats and formalwear

Walter B. D. Hickey, Sr., *President*
Walter B. D. Hickey, Jr., *Executive Vice President*
Paul S. Brescia, *Vice President*
Richard B. Lyons, *Vice President*
Morris M. Medved, *Vice President*
Donald B. Parish, *Secretary-Treasurer*

JAYMAR-RUBY, INC.

5000 South Ohio St., Michigan City, Ind. 46360
9 Plants: Michigan City (4) and East Chicago, Ind.;
Anniston and Russellville, Ala.; Elizabethtown, Ky.; and Rector, Ark.

JAYMAR
Slacks, sport coats, coordinated sportswear and leisure suits

SANSABELT
Slacks

CARY MIDDLECOFF
Golf slacks/shirt coordinates, leisure suits and walk shorts

PG's Silver/Gulfstream
Slacks, leisure suits, sweaters and sport shirts

Jack M. Ruby, *Chairman*
Burton B. Ruby, *President*
Leonard W. Benowitz, *Executive Vice President*
Nathan S. Balser, *Vice President*
Alf Djuvik, *Vice President*
Jack R. Frank, *Vice President*
Hartley Job, *Vice President*
Al E. Kahan, *Vice President*
Harold Leinwand, *Vice President and Treasurer*
Edwin H. Levitin, *Vice President*
James J. Moore, *Vice President*
Gerald I. Paige, *Vice President*
June E. Zylstra, *Secretary*
Gordon L. A. Kalil, *Executive Vice President of Silver/Gulfstream, Inc.*
Philip Bressel, *Vice President of Silver/Gulfstream, Inc.*
Morton Kramer, *Vice President of Silver/Gulfstream, Inc.*

GLENEAGLES, INC.

Gleneagles Court, Baltimore, Md. 21204
4 plants: Baltimore and Bel Air, Md.;
Minneapolis and Chisholm, Minn.

GLENEAGLES
Outercoats, weatherwear and jackets

RUE ROYALE
Sports and leisurewear by Nino Cerruti

GREAT WESTERN
Outerwear and leisurewear

JACK NICKLAUS
Sports and leisurewear

Charles R. Lamm, *Chairman*
Walter Nirenberg, *President*
Kenneth Giordano, *Vice President*
Roger L. Holland, *Vice President*
James W. McCarten, *Vice President*
Alfred S. Oppenheimer, *Vice President*
Thomas J. Peddicord, *Vice President and Treasurer*
Carl Sand, *Vice President and Controller*
Leo Stern, *Vice President*

CALIFORNIA SPORTWEAR COMPANY

1024 South Maple Ave., Los Angeles, Calif. 90015

CALIFORNIA SPORTWEAR
Leather sportswear and outerwear

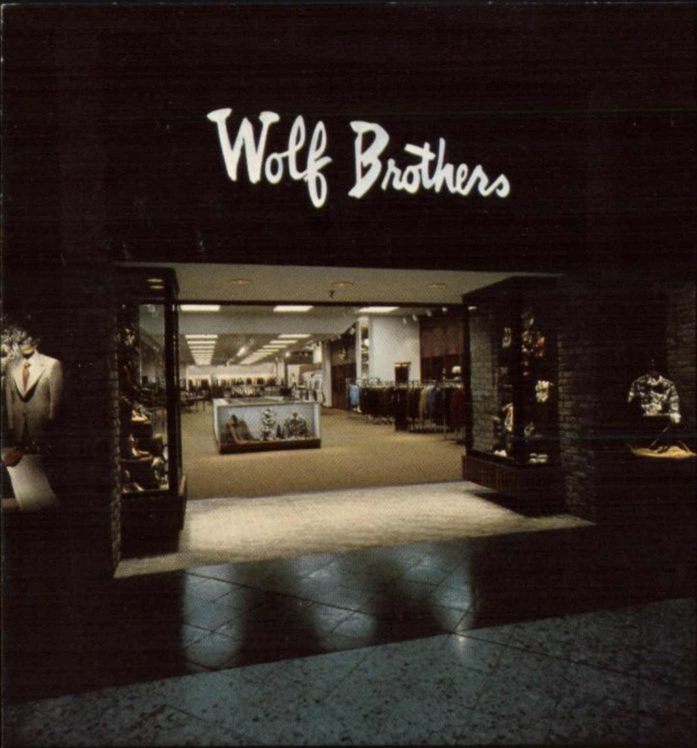
Leonard W. Jaffe, *President*

BLUE JEANS CORPORATION

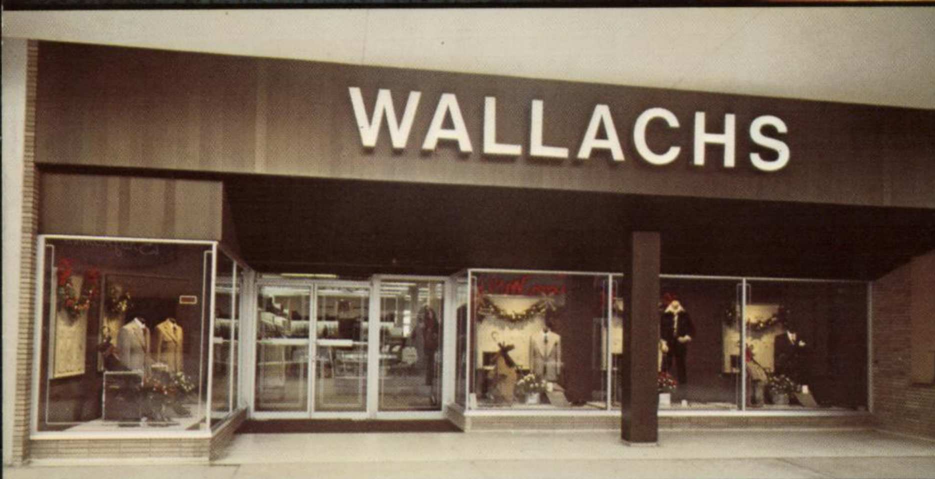
130 West 34th St., New York, N.Y. 10001
3 Plants: Whiteville and Henderson, N.C.;
and Bethune, S.C.

BJC
Jeans and coordinated outfits

Stanley Goldberg, *Executive Vice President*
Seymour Elkins, *Vice President*
Martin Steinberg, *Vice President*
P. Douglas McMillan, *Secretary-Treasurer*


Wolf Brothers


CHAS. A. STEVENS
CHAS. A. STEVENS


WALLACHS

HASTINGS
HASTINGS